

# California Debt and Investment Advisory Commission

## Fundamentals of Debt Financing

### ***Role of the Financial Advisor***



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## ***What is a Financial Advisor's Key Role?***

- ✓ ***To serve as an advocate for the issuer.***
- ✓ ***To provide the information necessary to make informed decisions.***
- ✓ ***To serve as a financial resource.***



## ***Why use a Financial Advisor?***

### ***✓ Prior to a Financing:***

- Prepare Plan of Finance*
- Develop structuring options*

### ***✓ During a Financing:***

- Coordinate the process*
- Serve as “Bond Market” expert*
- Provide pre- and post-pricing analyses*
- Bid the investment of bond fund proceeds*
- Protect issuer’s financial interest*



## ***Financial Advisor Qualifications***

- ✓ ***Experience with similar issuers***
- ✓ ***Expertise with type of assignment***
- ✓ ***Knowledge of financing techniques***
- ✓ ***Knowledge of the Bond Market***
- ✓ ***Technical competence***
- ✓ ***Availability of market resources***
- ✓ ***Ability to dedicate time and resources***



## ***Financial Advisor Qualifications (cont.)***

- ✓ ***Should be independent***
  
- ✓ ***Should be an individual or firm that:***
  - ***Understands your agency***
  - ***Respects your agency's philosophy***
  - ***Can guide you through the sale process***
  - ***You trust!***



## ***When Do You Use a Financial Advisor?***

- ✓ ***Special projects***
  - ***Debt profile/capital financing program review***
  - ***Studies/policy development***
  - ***Cash flow/debt capacity analyses***
- ✓ ***Bond financings***

*The Financial Advisor is an independent and objective municipal bond industry expert.*



## ***Prepare Plan of Finance***

### ***✓ Establish objectives:***

- Policies***
- Financial goals***

### ***✓ Understand project scope:***

- Cost***
- Timing***
- Source of debt repayment***

### ***✓ Determine appropriate debt structure:***

- Term***
- Debt capacity***
- Financing Vehicle***
  - Bond/COP/Note***
  - Fixed/variable rate***
  - Taxable/tax-exempt***
  - Insured/uninsured***



## ***Select Other Financing Participants***

- ✓ ***Assist with the selection of financing team:***
  - ***Bond Counsel/Disclosure Counsel***
  - ***Underwriter (if negotiated)***
  - ***Trustee***
  - ***Credit Enhancer (optional)***
  - ***Printer***
  - ***Other Specialty Participants***
    - ***TAB: fiscal agent***
    - ***Refunding: verification agent***
    - ***CFD: appraiser/special tax consultant***





## ***Determine Type of Sale***

*Negotiated or Competitive Sale*

✓ ***Type of Sale depends on:***

- ***Issuer's market presence***
- ***Type of financing***
- ***Complexity of bond structure***
- ***Fixed vs. variable rate***
- ***Credit quality***
- ***Market conditions***
- ***Issue size***



## ***Role in a Competitive Sale***

*The sale of an issue through a competitive bidding process. The winning underwriter is selected by submitting the best sealed bid according to the requirements specified in the published notice of sale.*

- ✓ ***Coordinate bond structuring and issuance process***
- ✓ ***Facilitate the competitive bidding process***



## ***Role in a Negotiated Sale***

*The sale of bonds whose terms and price are negotiated through an exclusive agreement with a previously selected underwriter.*

✓ ***Use of Financial Advisor Varies***

- ***Coordinate bond sale process (role similar to competitive sale)***
- ***Assist in hiring financing team***
- ***Serve as pricing agent***
- ***Serve as bidding agent***



## ***Role in Document Preparation***

- ***Review legal documents/disclosure documents***
- ***Assist in preparation of the Preliminary Official Statement***
- ***For a competitive sale, draft or assist in the preparation of the Notice of Sale***
- ***Prepare rating agency/bond insurer presentations***



## ***Role in The Ratings Process***

- ✓ ***Determine appropriate rating agencies***
  - *Defining nature of current and future requirements*
  - *Consideration of investor perceptions*
  
- ✓ ***Develop a comprehensive strategy:***
  - *Establish credit rating goals and objectives*
  - *Analyze and understand regional factors*
  - *Development of financial management policies*
  - *Coordinate subsequent negotiations*
  
- ✓ ***Prepare Rating Agency Presentation(s)***



## ***Role During Pre-Pricing***

- ✓ ***Create an ongoing dialogue with bankers and underwriters (traders) including:***
  - ***Discussion of competing supply pressures, market volatility, and the economic calendar***
  - ***Reaching a consensus on scale and structure***
  - ***A review of market and rates in days leading to pricing***
  - ***Facilitating pricing calls as needed during the order period***
- ✓ ***Communicate pricing expectations to financing team including:***
  - ***An evaluation of the forward calendar***
  - ***An analysis of pricing performance of recent and similar issues***



## ***Role on Pricing Day***

- ✓ ***Provide details on competing/comparable transactions***
- ✓ ***Analyze any proposed changes in rates/structure***
  - ***Redemption provisions***
  - ***Use of premiums or original issue discounts***
- ✓ ***Review and advise on proposed rates and underwriter's discount***



## ***Role in Post Sale***

- ✓ ***Determine success of transaction***
  - ***Market indices***
  - ***Comparable financings***
- ✓ ***Evaluate success of the process***
  - ***Performance of individual firms***
  - ***Compensation of individual firms***
- ✓ ***Bid the Investment of Bond Funds***
- ✓ ***Prepare Pricing Book***





# Compensation

## ✓ *Bond Issues*

- *Pre-negotiated fixed fee based upon time involved, size and complexity of the financial advisory assignment*

## ✓ *Other Assignments*

- *Fixed Fee*
- *Hourly Fee/Capped*
- *Retainer*
- *Retainer with transaction fees*



*Always Remember...*

*The Financial Advisor is your Friend!*

